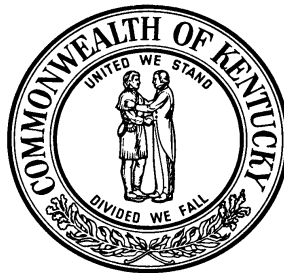


**REPORT OF THE AUDIT OF THE  
FORMER ROCKCASTLE COUNTY  
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period  
May 27, 2006 Through December 31, 2006**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE FORMER ROCKCASTLE COUNTY SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period  
May 27, 2006 Through December 31, 2006**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for the former Rockcastle County Sheriff for the period May 27, 2006 through December 31, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

#### **Financial Condition:**

The former Sheriff collected taxes of \$2,115,335 for the districts for 2006 taxes, retaining commissions of \$87,544 to operate the Sheriff's office. The former Sheriff distributed taxes of \$2,025,438 to the districts for 2006 Taxes. Taxes of \$342 are due to the districts from the Sheriff and refunds of \$33 are due to the Sheriff from the taxing districts.

#### **Report Comments:**

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties
- The Former Sheriff Should Have Maintained Accurate Receipts And Disbursements
- The Former Sheriff Did Not Pay Interest Earned On A Monthly Basis

#### **Deposits:**

The former Sheriff's deposits were insured and collateralized by bank securities.



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
SHERIFF'S SETTLEMENT - 2006 TAXES .....	3
NOTES TO FINANCIAL STATEMENT .....	5
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	9
COMMENTS AND RECOMMENDATIONS .....	13





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Buzz Carloftis, Rockcastle County Judge/Executive

Honorable Darrell Doan, Former Rockcastle County Sheriff

Honorable Michael E. Peters, Rockcastle County Sheriff

Members of the Rockcastle County Fiscal Court

Independent Auditor's Report

We have audited the former Rockcastle County Sheriff's Settlement - 2006 Taxes for the period May 27, 2006 through December 31, 2006. This tax settlement is the responsibility of the former Rockcastle County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Rockcastle County Sheriff's taxes charged, credited, and paid for the period May 27, 2006 through December 31, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 27, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Buzz Carloftis, Rockcastle County Judge/Executive

Honorable Darrell Doan, Former Rockcastle County Sheriff

Honorable Michael E. Peters, Rockcastle County Sheriff

Members of the Rockcastle County Fiscal Court

That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former Sheriff's Office Lacks Adequate Segregation Of Duties
- The Former Sheriff Should Have Maintained Accurate Receipts And Disbursements Ledgers
- The Former Sheriff Did Not Pay Interest Earned On A Monthly Basis

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

August 27, 2008



ROCKCASTLE COUNTY  
DARRELL DOAN, FORMER SHERIFF  
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period  
May 27, 2006 Through December 31, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 239,838	\$ 316,208	\$ 1,259,151	\$ 403,938
Tangible Personal Property	17,941	25,883	94,641	102,932
Fire Protection	1,647			
Increases Through Exonerations	68	90	359	2,458
Franchise Taxes	15,351	21,608	80,968	
Additional Billings	145	191	760	244
Unmined Coal - 2005 Taxes	8	10	42	14
Penalties	2	2	9	3
Adjusted to Sheriff's Receipt	(17)	318	2	(2)
Gross Chargeable to Sheriff	<u>274,983</u>	<u>364,310</u>	<u>1,435,932</u>	<u>509,587</u>
<u>Credits</u>				
Exonerations	3,697	5,034	19,450	11,118
Discounts	3,306	4,371	17,252	6,679
Franchise Taxes	904	1,143	4,813	
Transferred to Incoming Sheriff	<u>42,221</u>	<u>55,561</u>	<u>220,822</u>	<u>73,106</u>
Total Credits	<u>50,128</u>	<u>66,109</u>	<u>262,337</u>	<u>90,903</u>
Taxes Collected	224,855	298,201	1,173,595	418,684
Less: Commissions *	<u>9,844</u>	<u>12,674</u>	<u>46,944</u>	<u>18,082</u>
Taxes Due	215,011	285,527	1,126,651	400,602
Taxes Paid	214,814	285,106	1,125,298	400,220
Refunds (Current and Prior Year)	<u>219</u>	<u>286</u>	<u>1,162</u>	<u>377</u>
Due Districts or		**		
(Refunds Due Sheriff)				
as of Completion of Audit	<u>\$ (22)</u>	<u>\$ 135</u>	<u>\$ 191</u>	<u>\$ 5</u>

\* and \*\* See Next Page.

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY  
DARRELL DOAN, FORMER SHERIFF  
SHERIFF'S SETTLEMENT - 2006 TAXES  
For The Period May 27, 2006 Through December 31, 2006  
(Continued)

\* Commissions:

10% on \$10,000	\$	1,000
4.25% on \$931,740	\$	39,600
4% on \$1,173,595	\$	46,944

\*\* Special Taxing Districts:

Library District	\$	(11)
Health District		22
Extension District		121
Soil Conservation District		<u>3</u>

Due Districts or (Refund Due Sheriff)	\$	<u><u>135</u></u>
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The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

ROCKCASTLE COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2006  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 21, 2006 through December 31, 2006.

Note 4. Interest Income

The former Rockcastle County Sheriff earned \$542 as interest income on 2006 taxes. The former Sheriff did not pay the school any interest as required by statute. As of August 27, 2008, the Sheriff owed \$289 in interest to the school district.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Buzz Carloftis, Rockcastle County Judge/Executive  
Honorable Darrell Doan, Former Rockcastle County Sheriff  
Honorable Michael E. Peters, Rockcastle County Sheriff  
Members of the Rockcastle County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Rockcastle County Sheriff's Settlement - 2006 Taxes for the period May 27, 2006 through December 31, 2006, and have issued our report thereon dated August 27, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Rockcastle County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Rockcastle County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Rockcastle County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Rockcastle County Sheriff's Settlement - 2006 Taxes for the period May 27, 2006 through December 31, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Former Sheriff Should Have Maintained Accurate Receipts And Disbursements Ledgers
- The Former Sheriff Did Not Pay Interest Earned On A Monthly Basis

This report is intended solely for the information and use of management, the Rockcastle County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

August 27, 2008



## COMMENTS AND RECOMMENDATIONS



ROCKCASTLE COUNTY  
DARRELL DOAN, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period  
May 27, 2006 Through December 31, 2006

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

The former Rockcastle County Sheriff's office lacked adequate segregation of duties over the receipts and disbursements functions. The former Sheriff's bookkeeper performed all receipts and disbursements functions including collecting taxes, preparing daily deposits, preparing and mailing disbursements, and preparing all financial records including reports to taxing districts. Additionally, only one signature was required on checks.

Segregation of duties over collecting taxes, preparing daily deposits, preparing disbursements, and preparing financial records is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

The former Sheriff should have separated the duties of collecting taxes, preparing daily deposits, preparing and mailing disbursements, and preparing all financial records including financial reports. If these duties could not be segregated due to limited staff or limited budget, then strong oversight should have been provided to the employee responsible for these duties. The former Sheriff should also have required two signatures on checks, one being his own.

*Former Sheriff's Response:* None.

STATE LAWS AND REGULATIONS:

The Former Sheriff Should Have Maintained Accurate Receipts And Disbursements Ledgers

The former Sheriff did not record tax collections and distribution payments into receipts and disbursements ledgers. The Uniform System of Accounts as required by the State Local Finance officer requires an accurate recording of receipts by source and expenditure by payee be maintained. The former Sheriff should have maintained an accurate receipts and disbursements ledger to be in compliance with the Uniform System of Accounts.

*Former Sheriff's Response:* None.

The Former Sheriff Did Not Pay Interest Earned On A Monthly Basis

During the course of the audit, we noted that interest earned was not being paid to the school district on a monthly basis. KRS 134.140(3)(b)(d) requires the Sheriff to pay over interest on a monthly basis in the same manner as the monthly distribution of taxes to the individual districts. The former Sheriff should have paid interest earned to the school district on a monthly basis in order to be in compliance with this statute.

*Former Sheriff's Response:* None.

